REPORT

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TO: Transportation & Communication Committee

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SUBJECT: Proposed Funding Strategy for the Draft 2004 Regional Transportation Plan

EXECUTIVE DIRECTOR'S APPROVAL:

RECOMMENDED ACTION:

Approve the proposed funding strategy for the Draft 2004 Regional Transportation Plan.

SUMMARY:

Guided by the Highway & Transportation Finance Task Force the following delineates the Draft 2004 RTP strategic transportation funding proposal for TCC consideration:

- Protect/Strengthen Existing Transportation Revenues including Proposition 42
- Lower Voter Approval Threshold for Local Transportation Sales Taxes
- Maximize Motor Vehicle Fuel Tax and User Fee Revenue Through Debt and Pay-as-you-go Financing
- Pursue Revenue-Backed Project Financing as Appropriate
- Consider the Feasibility of HOT Lanes for the Outer Ring
- Review Methods for Collecting Revenues from Alternative Fuel Vehicles

BACKGROUND:

During the last several months the Highway and Transportation Finance Task Force has overseen several activities associated with the preparation of the 2004 Regional Transportation Plan's financial strategy. These activities have included updating cost and revenue estimates, which are calculated in 2002 dollars for the 2004 RTP, forecasting revenues from 2002 through 2030, and evaluating several new and innovative revenue sources. On the basis of the Task Force's actions and policy direction, we have prepared a recommended funding strategy for the 2004 RTP.

In preparing the recommended strategy, we were guided by the following principles:

- Maximize available resources.
- Ensure revenue is adequate to maintain conformity.
- Enhance regional and local choice in the selection of projects for funding.
- Identify revenue sources that are reasonable and consistent with current funding practices and long-term trends in transportation finance.

On the basis of the principles and the Task Force's direction we have identified the following candidate sources of revenue for the 2004 RTP.

1. **Protect/Strengthen Existing Transportation Revenues**

   In the 2001 RTP, an important strategy was the commitment of sales tax revenues from gasoline to transportation purposes. Proposition 42, approved by the voters in March 2002, provides a guarantee in the state constitution that these funds will be available for transportation purposes. This will result in $3.3 billion in the revenue baseline for projects in the 2004 RTP. However, a caveat placed in the constitution allows this revenue to be diverted to the state's general fund if the governor recommends such an action and the legislature agrees by a two-thirds vote. Currently, the governor is recommending a $938 million diversion for the 2003-04 fiscal year, with a pay back to the Transportation Investment Fund by 2009. To date, the legislature has not yet concurred in this recommendation.

   The diversion provision introduces considerable uncertainty in the availability in the revenue, resulting in a reluctance to commit the funds to long-term transportation projects, and interferes with the flow of revenues committed to transit and local governments for street and road operations and maintenance. To rectify this situation and ensure that the Proposition 42 revenue is available when needed, the constitution should be amended to remove this provision. This would make the sales tax on gasoline a truly viable revenue source.

   Additionally, Caltrans recently reported that revenue assumptions made in the 2002 STIP Fund Estimate were more optimistic than is currently expected – the State Highway Account (SHA) cash balance is projected to fall below planned levels primarily due to lower than expected truck weight fee revenues and gas tax receipts. It is critical to rectify this shortfall situation where possible by further adjusting the truck weight fee schedule to ensure a stable revenue stream. Truck weight fees are one of the primary sources of SHA funding. Chapter 861, Statutes of 2000 (SB 2084, Polanco), changed the way a portion of the weight fees is collected in order to be more consistent with the practices of other states. The change was intended to be "revenue neutral," meaning that it would not affect the total amount of weight fees collected annually. However, actual weight fee revenue in 2001-02—the year the new fee schedule took effect—was 15 percent less than the amount estimated. According to the Department of Motor Vehicles (DMV), the reason for the difference is that the number of trucks actually paying the new weight fees is much lower than was anticipated.

2. Allow 55% Voter Approval for Local Transportation Sales Taxes

This was a component of the funding strategy in the 2001 RTP. Since the adoption of that plan, Riverside County voters approved a thirty-year extension of its local transportation sales tax, which will provide the county with about $3.1 billion through 2030. The successful extension of local transportation sales taxes in San Bernardino and Imperial counties is forecasted to provide an additional $3.6 billion in revenue through 2030.

To facilitate the passage of these taxes, the state constitution should be amended to allow passage with a 55 percent majority instead of the currently required two-thirds majority. Several constitutional amendments have been introduced in the 2003-2004 session of the state legislature that would provide for this change, if one were put on a statewide ballot and gains voter approval.

3. Maximize Motor Vehicle Fuel User Fee Revenue Through Debt and Pay-as-you-go Financing

An important element in the 2001 RTP's revenue strategy was a 5 cents per gallon increase in the motor vehicle fuel tax in 2010 and an additional penny annually between 2011 and 2015, for a total 10 cents increase. For the 2004 RTP, it is proposed that a portion of the revenue stream from that increase be committed to the issuance of debt to raise up front revenues to fund RTP projects. Additionally, GARVEE bond financing (Grant Anticipation Revenue Vehicles) should be employed where feasible, pledging future federal funds to accelerate the 2004 RTP project development process.

In combination with the potential use of GARVEEs, we believe that this debt financing strategy could raise approximately $13 billion. The remaining portion of the revenue generated from the incremental increase in the state gas tax could be utilized for direct pay-as-you go projects – roughly $8.7 billion.

This proposal would require state implementation legislation. However, with the existing authorization of debt financing using federal fuel tax revenue (GARVEE), we believe that this establishes a precedent that the state of California should follow.

4. Pursue Revenue-Backed Regional Project Financing

There are several one-of-a-kind major regional projects proposed in the 2004 RTP, including the proposed MagLev system, truck lane facilities, freight railroad system improvements. The three proposals are to be financed through a combination of user charges and debt financing.

- Truckways (dedicated lanes) on freeways used by heavy commercial vehicles including the 710 from the Ports, to the 60 east, to the 15 north to Barstow -- a distance of 142 miles.
- Rail Capacity Improvement Projects – eligible capacity improvement projects along the East-West corridor including freight railroad infrastructure improvement (tracks, signals, yards, rail to rail grade separations, and other freight rail facilities), commuter rail facilities, and grade separations of highway-rail crossings.
- A regional MagLev system – approximately 259 miles (total regional system including the IOS).

5. Consider the Feasibility of HOT Lanes for the Outer Ring

High occupancy/toll lanes are proposed for the "outer ring" area of the region. Assuming that the peak hour charge would be 40 cents per mile and that 10 percent of the VMT on the toll lanes would be paying, it is estimated that about $1 billion would be raised for use in the HOT lane travel corridors through 2030.

6. Review Methods for Collecting Revenues from Alternative Fuel Vehicles

During the thirty years covered by the 2004 RTP, it is likely that sources of energy for the motor vehicle fleet will become quite diverse and fuel efficiency of engines can be expected to increase. Recognizing this, SCAG should seek funding in the federal transportation reauthorization legislation to begin research on alternative transportation user fee collection mechanisms for various fuel/ vehicle engine combinations in order to collect user-based revenues to finance future transportation improvements.

Summary of the 2004 Regional Transportation Plan's Funding Strategy

Summary of the Proposed Funding Strategy for the 2004 Region Transportation Plan
(In 2002 constant $'s)

	Amount in Billions
Baseline Revenues	
Local Revenue	$90.7
State Revenue	17.7
Federal Revenue	11.6
Total Baseline Revenues	**120.0**
New Revenues	
Continuation of the Local Transportation Sales Tax	3.6
Motor Vehicle Fuel Fee Debt Financing	13.0
Motor Vehicle Fuel Fee Pay-as-you-go	8.7
Revenue-Backed/Private Financing	48.4
HOT Lanes for Outer Ring Projects	1.0
Total New Revenues	**74.7**
Total Forecasted Revenues for the 2004 RTP	**$194.7**